

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION APPLIES NEW UNIT OF ACCOUNT TO THE
EUROPEAN COAL AND STEEL COMMUNITY

REFS: A. EC BRUSSELS 2447

B. EC BRUSSELS 2115

C. EC BRUSSELS 5710

1. SUMMARY: THE EC COMMISSION HAS DECIDED TO APPLY THE NEW MARKET BASKET UNIT OF ACCOUNT (U.A.) TO THE EUROPEAN COAL AND STEEL COMMUNITIES (ECSC) OPERATING BUDGET. THIS DECISION REPRESENTS ANOTHER STEP TOWARD APPLYING THE NEW U.A. TO ALL EC INSTITUTIONS. END SUMMARY.

2. THE EC COMMISSION DECIDED ON JULY 16 TO USE THE U.A. BASED ON A MARKET BASKET OF EC CURRENCIES (REF A) FOR THE OPERATING BUDGET OF THE ECSC. AFTER CONSULTATIONS WITH THE EC COUNCIL OF MINISTERS, THE COMMISSION PLANS TO MAKE ITS DECISION EFFECTIVE ON JANUARY 1, 1976. (COPIES OF THIS DECISION ARE BEING SENT TO INTERESTED WASHINGTON AGENCIES INCLUDING CLARK, STATE/RPE.) THE NEW U.A. WILL REPLACE THE ECSC'S CURRENT U.A. WHICH IS DEFINED IN TERMS OF GOLD AND CONVERTED INTO NATIONAL CURRENCIES ON THE BASIS OF THE CENTRAL RATES OF EC
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CURRENCIES WHICH ARE FLOATING JOINTLY.

3. THE NEW U.A. DOES NOT APPLY TO THE ECSC'S BORROWING AND LOAN OPERATIONS, WHICH WILL STILL BE ACCOUNTED FOR IN NATIONAL CURRENCIES. COMMISSION OFFICIALS SAY THAT THE ECSC PLANS TO MAKE A BORROWING ON CAPITAL MARKETS THIS YEAR IN THE NEW U.A. THIS FIRST BORROWING WILL PROBABLY BE FOR ONLY 20-30 MILLION U.A. (\$25-38 MILLION).

4. THIS IS THE THIRD EC INSTITUTION WHICH HAS ADOPTED THE NEW U.A. THE EC COUNCIL PREVIOUSLY HAD AGREED TO USE IT FOR THE EUROPEAN DEVELOPMENT FUND. THE BOARD OF GOVERNORS OF THE EUROPEAN INVESTMENT BANK HAS ALSO DECIDED TO USE IF FOR THE BANK'S ACCOUNTS. THE COMMISSION IS NOW LOOKING INTO APPLYING THE NEW U.A. TO THE EC BUDGET.

5. THE EUROPEAN PARLIAMENT RECENTLY RAISED THE QUESTION OF THE DISPARITY IN EXCHANGE RATES THAT EXISTS AMONG EC INSTITUTIONS. SPECIALLY DESIGNATED "GREEN RATES" ARE USED FOR CALCULATING MEMBER STATE AGRICULTURAL SUPPORT PRICES AND RELATED AMOUNTS, WHILE THE DOLLAR VALUE OF THE UNIT OF ACCOUNT USED IN DETERMINING AGRICULTURAL IMPORT LEVIES AND EXPORT SUBSIDIES IS CALCULATED BY A DIFFERENT METHOD DESCRIBED IN REFTEL C. IMF PARITIES BASED ON THE PRE-DEVALUED DOLLAR ARE EMPLOYED FOR CALCULATING THE EC BUDGET. FOR EXAMPLE, THE RATE USED FOR BUDGET CALCULATIONS IS 2.4 U.A. FOR ONE BRITISH POUND, WHILE THE RATE FOR AGRICULTURAL SUPPORT PRICES IS ONLY 1.96 U.A. SEVERAL PARLIAMENTARIANS CALLED FOR A REVISION OF THE BUDGET U.A. DESPITE PARLIAMENT'S EFFORT, COMMISSION OFFICIALS BELIEVE IT WILL BE AT LEAST ANOTHER YEAR BEFORE THE COUNCIL WILL BE READY TO DECIDE ON ADOPTING THE NEW U.A. FOR THE BUDGET, BECAUSE ITS ADOPTION WOULD SUBSTANTIALLY CHANGE MEMBER STATES BUDGETARY CONTRIBUTIONS AND RECEIPTS. GREENWALD

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